



INDIAN INDUSTRIES ASSOCIATION

AN APEX BODY OF MICRO, SMALL & MEDIUM ENTERPRISES

Ref. No: 3/Labr/1850

22 April 2026

Dr. M.K. Sanmuga Sundaram, IAS
Principal Secretary
Department of Labour
Government of Uttar Pradesh, Lucknow

Subject: IIA's Objections and Suggestions on the Draft Uttar Pradesh Social Security Rules, 2020.

Sir,

Indian Industries Association (IIA), apex representative body of MSMEs, representing over 16,500 Micro, Small and Medium Enterprises (MSMEs) across Uttar Pradesh and other states, respectfully submit our considered objections and suggestions on the Draft Uttar Pradesh Social Security Rules framed under the Code on Social Security, 2020.

We appreciate the State Government's commitment to extending structured social security benefits to workers. However, the draft rules, in their present form, impose disproportionate compliance, financial, and procedural burdens on MSMEs — without any size-based differentiation — which may adversely impact ease of doing business, formal employment generation, and the sustainability of small enterprises.

KEY OBJECTIONS

1. Excessive Compliance Burden on MSMEs (Rules 53, 55, 58)

The draft rules prescribe multiple forms, registers, and procedures relating to gratuity administration, claims processing, and recovery mechanisms. MSMEs — most of which operate with minimal administrative staff — lack the capacity to manage such extensive documentation requirements simultaneously with their core business operations.

Suggestion: Simplified, consolidated compliance forms specifically designed for establishments with fewer than 100 employees.

2. Duplication of Returns — Avoidable and Costly (Rules 90 & 93)

The Annual Return and Employment Information Return under these rules require detailed data that is already mandatorily reported under other central laws — including EPFO, ESIC, and GST filings. This leads to avoidable duplication of effort, compliance cost, and risk of inadvertent inconsistency across filings.

Suggestion: A single unified annual return, integrated with or auto-populated from existing EPFO/ESIC/GST data, so that the same information is not filed multiple times across different authorities.

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3. Mandatory Vacancy Reporting — Irrelevant for MSMEs (Rule 93)

The requirement to compulsorily report vacancies to Career Centers is designed for large organized sector employers. MSMEs, which predominantly rely on local networks, word-of-mouth, and informal hiring channels, derive no benefit from this provision and face only additional compliance burden.

Suggestion: Vacancy reporting should be made optional for establishments with fewer than 100 employees, or the threshold for this provision should be raised appropriately.

4. Unrealistic Filing Timelines (Rule 93)

The requirement to file returns within 30 days of year-end is impractical for MSMEs, which face simultaneous statutory compliance deadlines under multiple laws — including income tax, GST, EPFO, ESIC, and factory/shops & establishments requirements — all clustering around the same period.

Suggestion: Filing timelines should be extended to 60–90 days from year-end, with an online filing option to reduce physical compliance burden.

5. Disproportionate Financial Exposure — Cess, Interest & Penalties (Rules 90 & related provisions)

The draft rules prescribe cess, interest, and penalties for delays — including for procedural or technical defaults — without distinguishing between willful non-compliance and administrative lapses. For MSMEs with constrained cash flows, even minor delays triggered by banking delays, audit timelines, or system errors can attract severe financial consequences.

Suggestion: A graded penalty structure should be introduced: first-time or procedural defaults should attract only a written warning or nominal compounding fee; repeat or substantive defaults may attract proportionate financial penalties.

6. Complex Multi-Layered Adjudication (Rule 58)

The claims, recovery, and legal proceedings framework prescribed under Rule 58 involves multiple layers of adjudication. This significantly increases litigation costs, uncertainty, and management time for small employers — often disproportionate to the actual amount in dispute.

Suggestion: A mandatory pre-litigation conciliation mechanism should be introduced as a first step before formal adjudication, with time-bound resolution (30–45 days). This will reduce litigation load for both employers and the government. A conciliation committee for this purpose may be constituted which should have representation of the member from Industry Associations like IIA.

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7. Onerous Record-Keeping Requirements

The requirement to maintain detailed registers and records under various provisions of the draft rules is operationally difficult for small establishments that may not have dedicated HR or compliance personnel. In many MSMEs, the proprietor or a single accounts person manages all statutory work.

Suggestion: A simplified, digital record-keeping system — perhaps integrated with the Shram Suvidha Portal or a dedicated state portal — should be prescribed for MSMEs, in place of physical registers.

8. No MSME-Specific Relaxation — Uniform Treatment of Unequals

Most critically, the draft rules prescribe uniform compliance requirements for all establishments regardless of their size, turnover, or workforce strength. This treats fundamentally unequal entities equally, which is both administratively unsound and legally questionable.

It is respectfully submitted that this approach:

- a) Violates Article 14 of the Constitution, as it fails to make reasonable classification between large and small establishments;
- b) Constitutes an unreasonable restriction on the right to carry on business under Article 19(1)(g); and
- c) Is contrary to the principle of proportional regulation and the Union Government's stated policy of promoting ease of doing business for MSMEs.

Suggestion: A tiered compliance framework must be introduced, linked to employee strength - for example:

Below 40 employees: minimal compliance, single consolidated annual return

40–99 employees: simplified compliance with relaxed timelines

Above 100 employees: standard full compliance.

9. Nomination and Gratuity Forms — Administratively Burdensome (Rule 52 & Form 11)

The nomination procedure for gratuity under Rule 52 read with Form 11 requires extensive details including witness declarations, employer certification, and employee acknowledgement — all on a single occasion. For MSMEs with mobile or migrant workforces, managing this process for each employee at the time of joining is operationally challenging.

Suggestion: A self-declaration-based simplified nomination form for establishments below 50 employees, with employer certification waived or replaced by a countersignature-only requirement.

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10. No Single-Window Compliance System

The draft rules continue the existing pattern of requiring separate registrations, filings, and interactions with multiple authorities — ESIC, EPFO, Labour Department — for the same establishment and the same workforce. This multiplies compliance touchpoints unnecessarily.

Suggestion: A single-window compliance portal for UP, integrating EPFO, ESIC, and state labour law filings, should be mandated alongside these rules so that their implementation does not add to the compliance burden but actually reduces it.

PRAYER

In light of the above, it is most respectfully prayed that the State Government may be pleased to:

1. Amend the draft rules to introduce a graded, MSME-friendly compliance framework based on establishment size;
2. Eliminate duplication of returns by integrating with existing EPFO/ESIC/GST reporting infrastructure;
3. Extend filing timelines to a minimum of 60–90 days from year-end;
4. Introduce a graded penalty structure with first-time waiver for procedural defaults;
5. Prescribe a mandatory pre-litigation conciliation mechanism before adjudication under Rule 58;
6. Make vacancy reporting optional for establishments below 100 employees;
7. Operationalize a single-window compliance portal for all UP labour law filings;

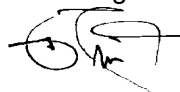
and pass such other orders as may be deemed just, proper, and in the interest of industrial growth and employment generation in the State of Uttar Pradesh.

Conclusion

The Code on Social Security, 2020 represents a landmark consolidation of social protection legislation. However, the true success of the Code depends on rules that are implementable on the ground — particularly for the MSME sector, which provides the largest share of employment in Uttar Pradesh after agriculture. Unless suitably modified, the present draft rules risk increasing compliance burden, discouraging formalization of employment, and undermining MSME sustainability — outcomes that are contrary to the Government's own stated objectives.

We trust that the State Government will give sympathetic and urgent consideration to these submissions.

Warm regards,



Dinesh Goyal
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Ref. No: 3/Labr/1851

22 April 2026

Dr. M.K. Sanmuga Sundaram, IAS
Principal Secretary
Department of Labour
Government of Uttar Pradesh, Lucknow

Subject: IIA's Objections and Suggestions on the Draft Uttar Pradesh Code on Wages Rules, 2021.

Sir,

Indian Industries Association (IIA), apex representative body of MSMEs, representing over 16,500 Micro, Small and Medium Enterprises (MSMEs) across Uttar Pradesh and other states, respectfully submit our objections and suggestions on the Draft Uttar Pradesh Code on Wages Rules, 2021.

At the outset, we appreciate the Government's initiative to simplify and consolidate labour laws with the objective of improving ease of doing business. However, we submit that certain provisions in the draft rules may lead to practical difficulties and increased compliance burden, particularly for MSMEs, who operate with limited financial and administrative resources.

Point-wise Objections & Suggestions on Draft U.P. Code on Wages Rules, 2021

1. Definition of Wages

The present definition may inadvertently increase the financial and compliance burden on MSMEs due to inclusion / exclusion complexities impacting statutory contributions even if the employer is ready to bear the higher contributions, the worker will not be ready to pay the higher contributions as their take home salary will be impacted.

Suggestion: A pragmatic definition to reduce the financial and compliance burden on MSMEs as well as to take care of take-home salaries to the workers may be worked out in consultation with industry associations.

2. Floor Wage Vs State Minimum Wage

Uniform application of floor wages may not reflect regional economic variations within the State.

Suggestion: Region-wise flexibility should be allowed considering local industrial conditions.

3. Working Hours and Overtime

Provision of overtime at double the rate increases operational costs, especially for small units.

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Suggestion: Flexibility may be provided for MSMEs and seasonal industries. At least for MSME the overtime rate should be 1.5 times the wages as in many south Asian countries.

4. Maintenance of Registers and Returns

Multiple registers and compliance requirements increase administrative burden.

Suggestion: A single faceless unified return and simplified digital compliance system should be introduced for MSMEs.

5. Wage Slip and Digital Compliance

Mandatory digital compliance may be difficult for micro & small-scale enterprises especially in rural areas.

Suggestion: Digital compliance may be made optional for micro & small enterprises, and they should be allowed to use manual system. This is particularly important in smaller towns and remote rural areas, where internet connectivity is often slow / unavailable. Enforcing fully digital systems without accounting for these infrastructural limitations may create operational challenges and hinder compliance among such businesses.

6. Inspector-cum-Facilitator Provisions

Broad inspection powers may lead to discretionary actions.

Suggestion: A transparent system should be implemented with prior notice to Micro, Small, and Medium Enterprises (MSMEs), except in cases initiated on the basis of specific complaints.

7. Timely Payment Provisions

Strict timelines may be challenging due to genuine cash flow constraints.

Suggestion: A reasonable grace period of 3–5 days may be provided for MSMEs.

8. Penalties and Compounding

High penalties for minor procedural lapses may adversely affect small enterprises.

Suggestion: First-time defaulters should not be subjected to penalties; instead, they should be issued an advisory and provided an opportunity to rectify any discrepancies or non-compliance.

9. Uniform Applicability

Uniform compliance requirements for all categories of industries may not be equitable.

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Suggestion: Separate compliance frameworks should be developed for micro and small enterprises.

10. Awareness and Implementation Support

Lack of awareness mechanisms may lead to unintentional non-compliance.

Suggestion: Government should conduct awareness programs on regional level basis and provide support systems for MSMEs.

Conclusion:

While the intent of the Code is progressive, it is essential that implementation is aligned with the ground realities of MSMEs to ensure sustainable compliance and industrial growth.

Warm regards,

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Ref. No: 3/Labr/1852

23 April 2026

Dr. M.K. Sanmuga Sundaram, IAS
Principal Secretary
Department of Labour
Government of Uttar Pradesh, Lucknow

Subject: Supplementary IIA's Objections and Suggestions on the Draft Uttar Pradesh Code on Wages Rules, 2021 & Social Security Rules, 2020.

Sir,

In continuation of IIA's Objections and Suggestions submitted vide letter No 3/Labr/1850 & 1851 dated 22nd April 2026, the following supplementary objections and suggestions are respectfully submitted for your kind consideration:

Supplementary Objections and Suggestions on Code on Wages, 2021:

1. Overtime Limits and Rate of Overtime Wages

The labour codes specify a limit of 100 hours of overtime in a quarter along with mandatory payment of wages at twice the normal rate. This provision places a significant financial burden on industries, particularly MSMEs, and restricts operational flexibility during peak production periods.

Suggestion:

The overtime limit be rationalized in line with prevailing industry requirements. The Government of UP has already implemented limit of 140 hours overtime in a quarter which should be continued and the payment of two time the normal wages should be normalized to 1.5 times of the normal wages especially for the MSMEs to reduce financial strain while still ensuring fair compensation to workers.

2. Classification of Workers (Unskilled / Semi-Skilled / Skilled)

The absence of standardized definitions for worker categories leads to arbitrary inspection practices, disputes, and imposition of unnecessary penalties.

Suggestion:

Uniform and clearly defined classifications should be notified, incorporating educational and technical qualifications, minimum experience period, and validity of employer certification. A self-certification mechanism by the employer may also be introduced to reduce discretion at the inspection level.

Supplementary Objections and Suggestions on Social Security Rules, 2020:

1. Contractor Accountability

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Principal employers are increasingly burdened due to non-compliance by contractors, coupled with the absence of a clearly defined accountability framework.

Suggestion:

Registered contractors should be made fully responsible for wage payments and social security compliance of their workforce. The liability of principal employers should be limited to providing proper amenities and work environment within the work premises. Additionally, contractor registration and monitoring systems should be strengthened to ensure compliance.

2. Employer Exit Flexibility

Existing labour provisions restrict the ability of employers to remove non-performing employees and undertake necessary workforce restructuring, thereby affecting operational efficiency.

Suggestion:

Employers may be allowed up to 10% annual workforce flexibility for performance-based exits. Special provisions should also be considered for distressed industries, including sick units and cases of closure. Exit policies should be balanced to safeguard the interests of both employers and employees.

3. Simplification of Gratuity and Bonus

The current provisions relating to gratuity and bonus are complex, leading to administrative burden and duplication in compliance requirements.

Suggestion:

Gratuity calculation and compliance procedures should be simplified. Consideration may be given to integrating gratuity into a long-term social security or pension framework. Bonus provisions may be rationalized by allowing structured inclusion within compensation and reducing multiple compliance requirements.

4. Women Employment and Compliance Balance

High compliance requirements, particularly in relation to maternity benefits, may inadvertently discourage employers from hiring women employees.

Suggestion:

A balanced and industry-friendly framework should be introduced to encourage women's employment through incentives rather than compliance burden. Flexible policies may be promoted while ensuring adequate protection of employee rights.

5. Aadhaar-Based Integration of Labour Records

The existence of multiple fragmented systems such as ESI, EPF, and UAN results in duplication, inefficiencies, and increased risk of fraud.

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Suggestion:

An Aadhaar-linked unified labour database should be implemented for ESI, EPF, UAN, and age/identity verification. A single-window digital compliance system may also be introduced to streamline processes and improve transparency.

The above suggestions aim to promote ease of doing business, reduce compliance burden, and ensure a balanced approach towards labour welfare and industrial growth.

Warm regards,

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